

# **Dismantling the Cross of Gold: *Economic Crises and U.S. Monetary Policy***

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***“How can a U.S. Gold Commission attempt to determine the role of gold in domestic and international systems without their being any foreign participation?”***

**Participant question at  
World Conference on Gold,  
Feb. 1982**

# ***Why Worry About the History of Gold?***

- **Had to give a presidential address to NAEFA and talk at Tokyo IIRA**
- **My interests: domestic labor market conditions, macro/forecasting, and international markets**
- **Year 2000 is appropriate point to look back at 20th century**



# ***Why Worry About the History of Gold?***

- **Original world currency**
- **Creation of Euro raises question of new currency blocs such as NAFTA**
- **Return to a world currency in the 21st century?**
- **Flurry of interest related to Nobelist Robert Mundell's one-time advocacy of gold**





# ***Five Episodes in U.S. History***

- **William Jennings Bryan's cross of gold campaign: 1896**
- **FDR's temporary abandonment of gold and gold price change: 1933-34**
- **Creation of Bretton Woods with its weak IMF model: 1944**
- **Richard Nixon's closing of the gold window: 1971**
- **Reagan-era Gold Commission: Early 1980s**



**Five  
Episodes**



# ***Bryan's Cross of Gold***

**“We will answer their demand for a gold standard by saying to them: ‘You shall not press down upon the brow of labor the crown of thorns; you shall not crucify mankind upon a cross of gold.’”**

**William Jennings Bryan**



## **Episode One**



# *Bryan's Cross of Gold*

- **Prior history:**
  - Shay's rebellion
  - Jackson's battle with Second Bank of the U.S.
  - Civil War monetary creation
  - Greenbackism
- **Rise of the Populist Party and demands for free silver**
- **William Jennings Bryan and the convention speech**



## Episode One





**“I believe it unrivaled in any convention ever held in our country. The audience seemed to rise and sit down as one man. At the close of a sentence it would rise and shout, and when I began upon another sentence, the room was still as a church...”**

***William Jennings Bryan  
(Memoirs)***



**Episode  
One**





# *Legacy of 1896*

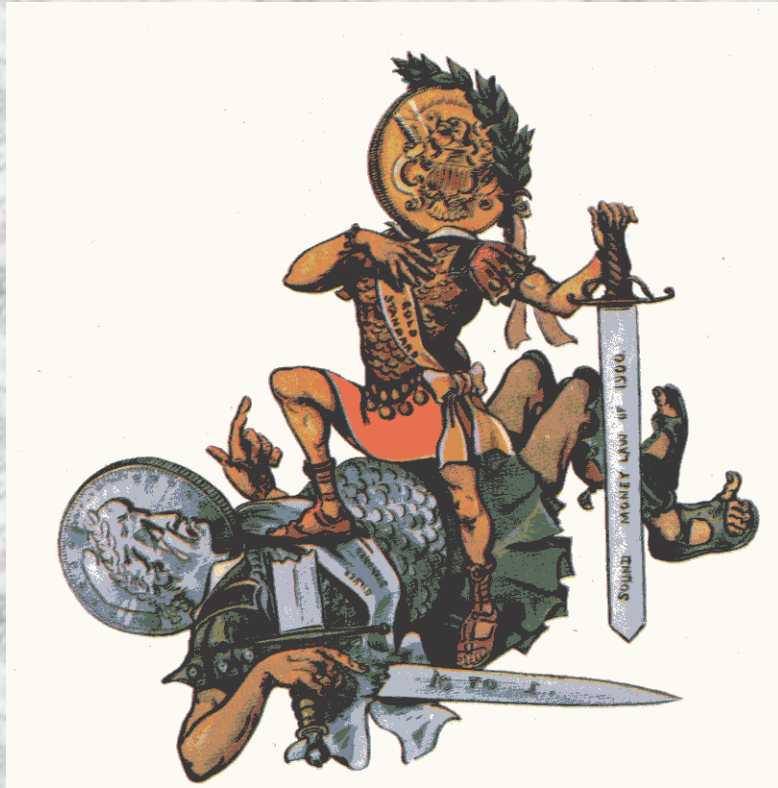
- **Democrats:**  
**Cheap money and low tariffs**
- **Republicans:**  
**Sound money and high tariffs**



Episode  
One



# *Gold's victory over silver in the Gold Standard Act of 1900*



# ***FDR and Gold: 1933-34***

**“Our dollar is now altogether too greatly influenced by the accidents of international trade, by the internal policies of other nations and by political disturbances in other continents. Therefore, the United States must take firmly in its hands the control of the gold value of our dollar. This is necessary to prevent dollar disturbances from swinging us away for our ultimate goal, namely, the continued recovery of our commodity prices.”**

***Franklin D. Roosevelt, Oct. 1933***



## **Episode Two**





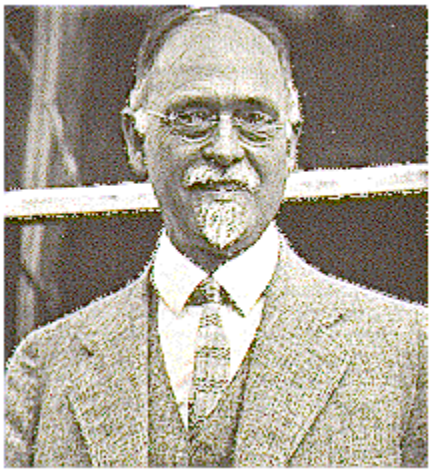
# ***FDR and Gold: 1933-34***

- **Reflationist thinking**
  - **Fisher: debtor/creditor**
  - **Price increases for confidence under the NIRA**
  - **Real vs. nominal wages and the NIRA**
  - **Agriculture**
- **The rise of George F. Warren**
  - **The gold-as-numeraire theory**
  - **Warren's theoretical inconsistency**
- **Free silverism revived**
  - **Democrats in Congress**
  - **Father Charles Coughlin**



## **Episode Two**





**Irving  
Fisher**

**“I know if we patiently  
and intelligently follow  
Mr. Roosevelt he is not  
going to make a mistake,  
because God Almighty is  
directing him.”**



**Father  
Coughlin**

# ***FDR and Gold: 1933-34***

- **London Economic Conference**
- **Critique by Keynes and others**
- **Gold Reserve Act: \$35/ounce**
- **A constitutional crisis averted**
- **Gold inflow/golden avalanche**
- **Monetary opportunity lost**



## **Episode Two**





***What is this?***



**Mt. Washington Hotel**

***Where is it?***

**Bretton Woods, N.H.**

**“...(T)he whole thing is nothing less than a plot to give Great Britain control of our gold stock and unload upon the United States an immense volume of debts owed by Britain to other countries.”**

***Rep. Frederick Smith  
on an early version of  
Bretton Woods***

# *Bretton Woods: 1944*

## Background

- Lingering public suspicion on Main Street
- Suspicions of international institutions on Wall Street
- Pre-war golden avalanche
- Early discussion in the Lend-Lease era



## Episode Three





# *Bretton Woods: 1944*

- **Harry Dexter White vs. John Maynard Keynes**
  - Keynes: Central bank issuing bancor
  - White: Financial intermediary with unitas accounting unit
  - Role of gold
- **Congressional campaign**
  - IMF in U.S., not U.K.
  - IMF in Washington, not New York



Episode  
Three





**Harry Dexter White (left) and  
John Maynard Keynes (right)**

# **Original 1944 Quota Plan:**

## ***(\$8,147.5 million)***

<b>US:</b>	<b>\$2,750 million</b>
<b>UK:</b>	<b>\$1,300 million</b>
<b>USSR:</b>	<b>\$1,200 million</b>
<b>China:</b>	<b>\$550 million</b>
<b>France:</b>	<b>\$450 million</b>
<b>India:</b>	<b>\$400 million</b>
<b>Canada:</b>	<b>\$300 million</b>
<b>Holland:</b>	<b>\$275 million</b>
<b>Belgium:</b>	<b>\$225 million</b>
<b>Australia:</b>	<b>\$200 million</b>



# *Closing the Gold Window: 1971*

"In recent weeks, the speculators have been waging an all-out war on the American dollar... Accordingly, I have directed Sec'y Connally to suspend temporarily the convertibility of dollars into gold... Now this will not win us any friends among the international money traders. But our primary concern is with the American workers..."

*Richard Nixon*



## Episode Four



# *Closing the Gold Window: 1971*

## Background:

- Dollar shortage to surplus
- Nixon vs. Kennedy in 1960
- IET, capital controls
- Gold problem and the Triffin option
- SDRs
- Two-tier gold



## Episode Four





**Robert  
Triffin**



*Gold will “go the way of wampum,  
clam shells, copper and silver, and...  
become a commodity”*



**Charles P. Kindleberger (1970)**

# ***Closing the Gold Window: 1971 - continued***

- **Volcker Report:**
  - Evolution/Reform
  - Avoid changing gold price;  
suspend convertibility if necessary
- **Bureaucratic inertia**
- **Nixon's unemployment concerns**



**Episode  
Four**



***“I hear all about the  
balance of payments  
and nobody worries  
about 8%  
unemployment.”***



**Richard  
Nixon**





**Paul Volcker**  
**Undersec'y of**  
**Treasury for**  
**Monetary**  
**Affairs**

# ***Closing the Gold Window: 1971 - continued***

- **The crisis: August 15, 1971**  
**Arthur Burns vs. John Connally**
- **The Smithsonian Agreement:  
Bretton Woods lite**
- **Benign neglect: “I don’t give a  
(expletive deleted) about the lire.”**  
*(R. Nixon - Watergate tape)*
- **The IMF and the ghost of Harry  
Dexter White?**
- **The end of Smithsonian**



**Episode  
Four**





**Arthur F.  
Burns**



**John  
Connally**



# *The Gold Commission and Beyond*

*“Certain ideas enraptured Kemp, regardless of voter reaction. Iowa politicians still shake their heads about his insistence in the ‘88 campaign to convince the state’s farmers that their economic problems could be traced to President Franklin D. Roosevelt’s decision to abandon the gold standard.”*

**Newspaper profile of Jack Kemp**



**Episode  
Five**



# ***The Gold Commission and Beyond***

- **Background:**
  - Stagflation
  - Helm's demand
  - Supply siders
- **Creation of the Gold Commission**
  - "Majority": Medallions
  - Minority:
    - "Gold is honest money"
  - Where is the world?
- **Kemp and Forbes**
- **From left/statism to right-wing militias**



**Episode  
Five**



*“Though it became apparent to us during our deliberations that we would not be able to achieve a unanimous set of recommendations, on some issues, it was possible to form majorities. Even so, a majority vote in favor of a specific recommendation did not signify that all so voting had the same purposes and/or interpretations. Moreover, if each of us had been reporting singly instead as one of a body of colleagues, individual members would not necessarily have expressed themselves in precisely the way the recommendations are stated.”*

**“Majority” report of U.S. Gold Commission**





**Treas. Sec'y  
Donald Regan**



**Sen. Jesse  
Helms**



**Arthur  
Laffer**



**Rep. Ron  
Paul**



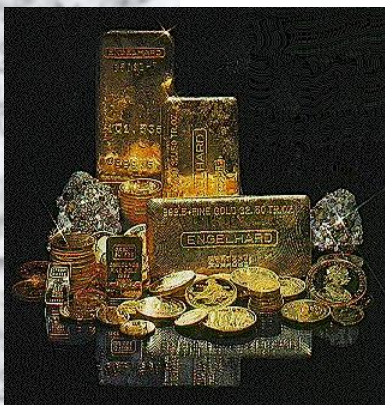
**Steve Forbes**



**Jack Kemp**

# **Implicit Lesson:** *Path Dependency of U.S. Policy*

**William Jennings Bryan  
George Warren/FDR  
Harry Dexter White  
Richard Nixon  
Regan/Reagan**



**Five  
Episodes**





# ***Explicit Lesson: Bryan's Ultimate Triumph***

- **U.S. unilateralism and sovereignty**
- **Weak IMF - not a discretionary world central bank**
- **No international Euro likely**
- **Any NAFTA monetary union would have monetary policy “made in the U.S.A.”**



**Five  
Episodes**



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